



Control Number: 51871



Item Number: 7

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PUCT PROJECT NO. 51871

REVIEW OF THE ERCOT SCARCITY
PRICING MECHANISM

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2021 MAR 10 11:59
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OF TEXAS

**NRG ENERGY, INC. RESPONSE TO REQUEST FOR COMMENTS ON THE LOW
SYSTEM-WIDE OFFER CAP**

I. INTRODUCTION

NRG Energy, Inc. (NRG) appreciates the opportunity to comment in this project on the ERCOT scarcity pricing mechanism set forth in 16 Texas Administrative Code (TAC) § 25.505(g), including the calculation of the peaker net margin (PNM) which resets the System-Wide Offer Cap (SWCAP) to the Low System-Wide Offer Cap (LCAP) for the remainder of a calendar year. While the Commission has discussed it as a possibility, the LCAP should not be increased above \$2,000/MWh for this summer. NRG supports the continued use of the LCAP methodology, but proposes that the rule be adjusted to better accommodate a situation where very high natural gas prices increase the cost of generation to be above \$2,000/MWh, by maintaining the LCAP at \$2,000/MWh and allowing generators to recover exceptional fuel costs through make-whole settlement.

The PNM concept has been in Commission rule since 2006¹ and is intended to be a circuit breaker to protect consumers from a prolonged period of extremely high prices in the ERCOT market. The system-wide offer cap is set at the \$9,000/MWh high system-wide offer cap (HCAP) until the PNM exceeds a threshold of three times the cost of entry of a new generation plant.² When that threshold is met, the circuit breaker is triggered and lowers the SWCAP from \$9,000/MWh to the greater of \$2,000/MWh or 50 times a natural gas index price determined by ERCOT (i.e. the fuel index price component of PNM).³ Due to the “greater of” provision, the LCAP can increase above \$2,000/MWh and even \$9,000/MWh. During the February 2021 winter weather event, the PNM threshold was reached, however, the Commission found good cause to

¹ *Rulemaking on Wholesale Electric Market Power and Resource Adequacy in the ERCOT Power Region*, Project 31972, Order Adopting Amendment to §25.502, New §25.504 and New §25.505 as Approved at the August 10, 2006, Open Meeting (Aug. 23, 2006).

² 16 TAC § 25.505(g)(6)(C).

³ 16 TAC § 25.505(g)(6)(A).

suspend the application of the LCAP due to high gas prices which would have resulted in a LCAP well above the \$9,000/MWh HCAP.⁴ The Commission reinstated the LCAP shortly after the event, which resulted in a \$2,000 MWh price cap.⁵

Given the PNM threshold has been reached, NRG strongly encourages the Commission to maintain the system-wide offer cap at \$2,000/MWh for the remainder of the year rather than temporarily increasing it to a higher value for the summer. Maintaining the LCAP at \$2,000/MWh is consistent with the structure provided by 16 TAC § 25.505(g)(D). The ERCOT market needs a return to certainty. The PNM and LCAP mechanisms have been a permanent fixture in the ERCOT market design since its inception in 2006 and the PNM threshold was triggered for the first time during the February 2021 winter weather event. The relief from high prices the PNM provides consumers is a sound principle that needs to be maintained. Increasing the price cap and VOLL⁶ for this upcoming summer period to be higher than \$2,000/MWh at the exact time when consumers need relief upsets the certainty provided by the rule in the first place. However, NRG recognizes the issues with the LCAP calculation when natural gas prices are extremely high and proposes modifications below.

The legislature has focused on scarcity pricing, among many other elements of market design, because of scarcity pricing's substantial consequences when applied for a long duration of time. This is a substantial concern that the Commission does not need to attempt to remedy now, and the Commission could instead focus narrowly on resolving what the currently established mechanism should look like for the remainder of 2021. A more comprehensive review of scarcity pricing is not able to be completed now, because it would have to incorporate 'lessons learned' from the February 2021 events.

⁴ *Oversight of the Electric Reliability Council of Texas*, PUC Project No. 51617, Order Directing ERCOT to Take Action and Granting Exception to Commission Rules (Feb. 15, 2021) and Second Order Directing ERCOT to Take Action and Granting Exception to Commission Rules (Feb. 16, 2021).

⁵ *Issues Related to the State of Disaster for the February 2021 Winter Weather Event*, Project No. 51812, Order Reinstating the Low System-Wide Offer Cap (Mar. 3, 2021).

⁶ Per 16 TAC § 25.505(g)(6)(E), the value of lost load is equal to the value of the system-wide offer cap in effect.

II. RESPONSES TO QUESTIONS

1. Should the Commission amend its rules to adjust the LCAP?

Yes. The Commission should maintain a LCAP of \$2,000/MWh and amend the rules as provided in response to Question 2 to better accommodate a situation where very high natural gas prices increase the cost of generation to be above \$2,000/MWh. As explained above, the LCAP of \$2,000/MWh serves an important function and should remain in place. However, an adjustment is needed to ensure a lower offer cap can accommodate a wider range of market conditions and function as a circuit breaker when such conditions occur.

2. If the Commission amends its rules to adjust the LCAP, what specific adjustments should it make?

NRG encourages the Commission to maintain the LCAP at \$2,000/MWh as written for the remainder of 2021. While less likely during the summer period, high natural gas prices can cause the LCAP to increase above \$2,000/MWh due to the 50 times fuel index price component as was experienced during the February winter event. As a result, fuel costs for generators can exceed the \$2,000/MWh LCAP and need to be recovered. Therefore, NRG recommends a modification to the rule that would remove the 50 times fuel index price component and allow for generators to recover exceptional fuel costs if this situation were to arise. ERCOT Protocol Section 4.4.9.4.1, Mitigated Offer Cap, and Section 9.14.7, Disputes for Reliability Unit Commitment (RUC) Make-Whole Payment for Fuel Costs, allow for filing of exceptional fuel cost and fuel cost recovery during make-whole settlement for the RUC process. Those rules should be adjusted to cover this situation and ensure all costs for operating up to a generator's high sustainable limit can be recovered.

NRG believes its proposed modification strikes the appropriate balance of market certainty and consumer relief, helping to ensure prices are capped at \$2,000/MWh so the LCAP functions as intended while allowing exceptional fuel costs for generators to be recovered if \$2,000/MWh proves insufficient to cover generator costs.

3. If the Commission amends its rules to adjust the LCAP, when should these adjustments take effect?

The recommendation proposed by NRG in the response to question 2 can be implemented as soon as practicable.

NRG appreciates the opportunity to comment in this project on the ERCOT scarcity pricing mechanism. NRG supports the continued use of the LCAP methodology, but proposes the rule be adjusted to better accommodate a situation where very high natural gas prices increase the cost of generation to be above \$2,000/MWh, by maintaining the LCAP at \$2,000/MWh and allowing generators to recover exceptional fuel costs through make-whole settlement.

Respectfully submitted,

Bill Barnes

Bill Barnes
Sr. Dir. Regulatory Affairs
NRG Energy, Inc.
1005 Congress Avenue, Suite 950
Austin, Texas 78701
Telephone: (512) 691-6137
bill.barnes@nrg.com